

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 17,912 - ORDER NO. 18,117 ✓

January 7, 1975

IN RE: Application of Piedmont Natural Gas Company, Inc., for approval of restructured rate schedules and procedure to track curtailment variations.)	ORDER APPROVING RATES AND PROCEDURE TO TRACK CURTAILMENT VARIATIONS
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TO: PIEDMONT NATURAL GAS COMPANY, INC.

On November 15, 1974, Piedmont Natural Gas Company, Inc., (Piedmont), filed with this Commission a Petition requesting approval of restructured rate schedules for natural gas services and of a procedure to track curtailment variations. No additional gross revenues would be derived by Piedmont by reason of the proposed restructured rate schedules. The proposed procedure for tracking of curtailment losses would not cause an increase in Petitioner's return on investment or on common equity, but rather, it would permit Petitioner to maintain those rates of return previously found to be just and reasonable by this Commission (except the same may be eroded by future inflationary pressures.) The Commission set this application for hearing on December 19, 1974.

Notice, as required by provision of the law and the Rules and Regulations of the Commission, was duly and properly given and a public hearing on this filing was held on December 19, 1974. Appearances were entered by Jerry W. Amos, General Counsel for Piedmont, and M. John Bowen, Jr., Esq., representing the Attorney General and the public pursuant to Section 58-62 of the Code of Laws of South Carolina, 1962. There were no appearances in opposition.

At the Commencement of the hearing, Piedmont submitted evidence of publication showing that notice of the filing had been published in newspapers of general circulation throughout its service area.

THE COMPANY

Piedmont is a public utility engaged in the business of transporting, distributing and selling gas in South Carolina subject to the jurisdiction of this Commission. Piedmont purchases gas from Transcontinental Gas Pipeline Corporation (Transco), and from Carolina Pipeline Company (Carolina),

and furnishes gas to customers in eighteen cities and towns located in South Carolina. Piedmont also operates in North Carolina.

TESTIMONY

The reasons and conditions which warrant restructuring of the rates are as follows:

The restructured rate schedules are necessary to insure fair and reasonable treatment of Piedmont's various classes of customers. The restructured rate schedules will not increase Piedmont's South Carolina revenues.

The filing of the restructured rates was caused primarily by changing operating conditions brought on by supply curtailment. Piedmont currently has nineteen rate schedules in effect in South Carolina. Most of these rate schedules were designed at a time when Piedmont had ample supplies of gas. As the rate of curtailment from its suppliers accelerated, Piedmont found it necessary to amend its rate schedules from time to time to provide appropriate rates for those customers who receive a more valuable service because of their placement in higher curtailment priority. It is now apparent that curtailment will, at least for the near future, continue to increase and that Piedmont must structure its rates to provide fair and reasonable rates to its various classes of customers.

The proposed new rate schedules reduced the number of rate schedules from nineteen to twelve. The new rate schedules were designed by the Company after receiving advice from outside experts. The major factor considered by Piedmont in designing the new rates was its limited gas supply resulting from suppliers' curtailment. Additionally, Piedmont considered the value of service to each class of customer, the cost of serving each class of customer, the need to encourage conservation and competitive fuel prices.

The reasons and conditions warranting approval of a procedure to track curtailment variations are as follows:

The amount of gas available to Piedmont has a direct effect upon the amount of funds available to Piedmont to maintain its facilities and services in accordance with the reasonable requirements of its customers, to pay interest on its outstanding indebtedness and dividends on its preferred stock, to compete in the market for capital funds, and to produce a profit for its common shareholders.

At 20% curtailment the proposed rates (like existing rates) will produce approximately 2.7 million dollars of operating income for return, a return on investment of 9.21% and a return on common equity of approximately 15%. This is the minimum return needed by Piedmont to meet its statutory obligations. As curtailment increases, one of two things will happen. If Piedmont were to receive compensation of fifty cents per Mcf for excess curtailment as proposed in the Transco settlement plan, its revenues, and net operating income for return, return on investment and return on common equity would increase. As a result, a reduction in its rates would be appropriate. On the other hand, if Piedmont were to receive no compensation for the excess curtailment (or compensation of some lesser amount), its revenues, net operating income for return, return on investment and return on common equity would decrease. As a result, Piedmont's ability to meet its statutory obligation to provide reasonably adequate service within its service area would be impaired. Since it would be unfair to the customers to maintain rates which are higher than necessary and it would be equally unfair to the investors to maintain rates lower than necessary, neither alternative is desirable.

In theory, the tracking formula proposed by Piedmont is similar to the procedure now in use for tracking supplier increases or decreases in the cost of gas. As in the case of tracking supplier increases in the cost of gas, the tracking of curtailment losses would not result in any increase in Piedmont's return on investment or on common equity. It would, however, have the effect of assuring that margin gains realized from less curtailment and/or supplier compensation for curtailment would be passed on to the customer automatically in the form of rate reductions. Stated another way, the procedure would permit Piedmont to maintain its margin, (that is, gross revenue, less cost of gas) regardless of the rate of curtailment. If margin losses occur, Piedmont could increase its rates to cover such losses, but if margin gains occurred, Piedmont would reduce its rates without hearing.

Without such a procedure, an unnecessary burden would fall on Piedmont, this Commission, the taxpayers and the ratepayers of this State. Regulatory lag, cost of filing rate proceedings, cost of hearings and demands on the Company's and Staff's time and resources are among the problems which can be avoided by implementation of the proposed procedure. At the same time,

the Commission remains free, if it should so decide, to require the Company to justify its rates. The ratepayers are thus afforded double protection - (1) the tracking procedure does not allow for any increase in rate of return or even protection against the erosion in earnings caused by other factors including inflation; and (2) this Commission always reserves the right to require the Company to prove that its rates are just and reasonable.

FINDINGS AND CONCLUSIONS

Based upon the foregoing considerations, and a careful review of all the evidence and exhibits filed in this matter, we have made the following findings concerning the rate schedules proposed by the Company and the proposed procedure for tracking curtailment variations:

1. That the proposed restructured rate schedules filed with and made a part of the Petition are necessary to insure fair and reasonable treatment of Piedmont's various classes of customers and will not increase Piedmont's South Carolina revenues. Accordingly, the proposed rate schedules are found to be fair and reasonable and should be approved.

2. During the last two years when Piedmont Natural Gas Company has experienced wildly fluctuating rates of curtailment from its suppliers, the rate of curtailment from Transco has been the most uncertain variable element in gas utility rate-making. The Commission finds that the "tracking" formula proposed by Piedmont in order to maintain its margin (the difference between its revenues and the cost of purchased gas) is just and reasonable and will benefit both the Company and its customers and should, therefore, be approved.

ACCORDINGLY, IT IS ORDERED, ADJUDGED, AND DECREED:

1. That the proposed rates filed with and made a part of the Petition are hereby approved to become effective January 7, 1975.

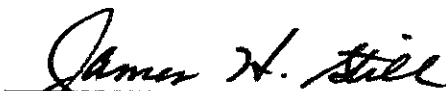
2. That the procedure for tracking curtailment variations filed with and made a part of the Petition is hereby approved to become effective on and after January 7, 1975.

3. That the Commission continues jurisdiction of this Docket until further notice.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Director-Administrator Services
(SEAL)